

 **SUMMIT COMMUNICATIONS, INC.**



3633 136th Place S.E. / Suite #107 / Bellevue, WA 98006
206-747-4600

RECEIVED

AUG 24 1993

FCC MAIL ROOM

August 23, 1993

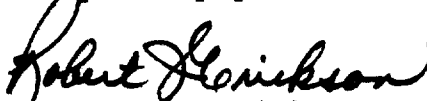
Office of the Secretary
Federal Communications Commission
1919 M Street, NW
Washington, DC 20554

RE: Comments of Summit Communications, Inc., concerning the
Notice of Proposed Rulemaking, MM Docket No. 93-215,
released July 16, 1993.

Enclosed are an original and nine copies of our comments
regarding the Notice of Proposed Rulemaking described above.
We hope that the views of this small cable television
operator will be useful to the Commission in formulating
final rules regarding rate regulation, including cost-of-
service showings.

If you should have any questions about the enclosed, please
do not hesitate to call.

Very truly yours,


Robert J. Erickson
Senior Vice President

No. of Copies rec'd 079
List A B C D E

DOCKET FILE COPY ORIGINAL

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, DC 20554

RECEIVED

AUG 24 1993

FCC MAIL ROOM

In the Matter of)
)
Implementation of Sections)
of the Cable Television)
Consumer Protection and)
Competition Act)
of 1992)
)
Rate Regulation)

MM Docket 93-215

To: The Commission

COMMENTS OF SUMMIT COMMUNICATIONS, INC. CONCERNING THE
NOTICE OF PROPOSED RULEMAKING RELEASED JULY 16, 1993

Date: August 23, 1993

James A. Hirshfield, Jr.
President

Robert J. Erickson, CPA
Senior Vice President

Summit Communications, Inc.
3633 136th Pl. SE., Suite 107
Bellevue, WA 98006
206-747-4600

GENERAL COMMENTS

Summit Communications, Inc.

1. Summit Communications, Inc., a small MSO, serves 32,000 cable TV customers in 30 cable systems in Washington, Oregon and Idaho, operating under 42 franchise agreements. Summit is approximately 68% owned by my wife and me. Summit employs one CPA, who was quite busy before rate regulation began. We believe operating under these rules may require us to add a second similarly qualified person, paid at a middle management level. While neither a lawyer nor a CPA, I have a financial background. The effect of these rules on our operations, and the operations of many other small operators, would be staggering if introduced as proposed. Summit's two largest cable systems serve 10,000 and 4,200 customers, respectively. Our smallest serves 37 customers. Summit's 1992 gross revenue from its cable TV business was \$10,100,000.
2. Summit has three operating divisions and a customer service division. Located at our main office, it provides customer services to 28,000 of these customers (the balance are served out of one local office). The customer service division has 19 employees. By centralizing customer service, we significantly reduced the per customer cost of this area. Division 1 manages two operating areas, two cable systems, 11,800 customers, and has 16 employees. Division 2 manages three operating areas, 15 cable systems, 8,800 customers, and has 13 employees. Division 3 manages five operating areas, 13 head ends, 11,300 customers, and has 17 employees. In addition to customer service, we have centralized engineering, finance/accounting, and marketing functions.

<u>DIVISION</u>	<u>AREAS</u>	<u>NO. OF SYSTEMS</u>	<u>CUSTOMERS (EBU'S)</u>	<u>EMPLOYEES (FTE'S)</u>
ACCOUNTING				6
MGMT, INCL. ENG.				4
CUSTOMER SERV.				19
1	2	2	11,800	16
2	3	15	8,800	13
3	5	13	11,300	17
	----	----	-----	----
TOTALS	10	30	31,900	75

3. Summit's business is serving small communities with small cable systems. Our organization is similar to many other companies who have similarly defined their business. While expenses such as pole rents, system power, technical labor, and rights of way can be defined at the cable system level, almost every other expense is set at a higher organizational level. Many of our retail prices have been defined company wide, to facilitate training and enhance performance in

customer service. For instance, we have standard extra outlet, install, reconnect, and other prices and pricing policies. This allows us to minimize customer service costs, including training and turn-over expense for our 19 customer service employees.

Motivation

4. With large MSO's, small single system operators, and a wide range of companies in between, it is clear that a "one size fits all" approach to rate regulation has its problems. Therefore, we urge the Commission to select - and reject - the pieces of its cost-of-service rules based on how they motivate cable operators. The Commission notes it is important to motivate cable operators to build and deliver new technologies. The Commission does not specifically mention quality. By citing only "reasonable costs can be recovered", the Commission suggests that lowest cost is to be the driving force. We recommend a cost standard directed at determining whether the expense provides an additional benefit to cable customers and, if so, to allow it. For instance, the benchmarking rules allow a per channel revenue recovery, the amount declining with each added channel. The effect of this is to motivate cable operators to add only free or low cost services. Many of Summit's cable systems would lose money incrementally through the addition of one of the more expensive channels.
5. We therefore recommend that the Commission adopt a simplified process to motivate cable operators to add quality, higher cost channels. We recommend the establishment of a programming cost amount (or average) on a per channel basis, which underlies the per channel revenue numbers in the benchmarking tables. The presumption would be that any per channel cost in excess of this amount would be allowable as an externality. It is important that this process be on a per channel basis, not on an average. Otherwise the more expensive, higher quality channels will not be added. Establishing the type of proceeding recommended here would, Summit believes, relieve much of the future pressure for cost of service studies.

The Customer Pays

6. It is important not to overlook the fact that, ultimately, all costs involved in this regulatory scheme will be paid by cable TV customers. The objectives at Section 93 should specifically recognize that customers pay the cost of the regulatory burden, whether that cost is initially assumed by the franchising agency, the cable company or the FCC. Summit suggests a limit on regulatory costs, computed on a per customer basis. Our recommendation is to mandate that regulatory costs not exceed \$5 per customer per year, split evenly between the cable operator and the franchising

authority. This would clearly motivate both parties to work out differences inexpensively. It would also lead to simplified procedures in smaller systems. We endorse the scheme recommended to you by the Small Cable Business Association ("SCBA").

Small Operators

7. The complexity of these rules, not to mention the benchmarking regulations which preceded this rule making, boggles our mind. The tentative conclusion at Sections 76, 95, and 98 that "Wherever possible, the Notice proposes general rules, or alternative rules for small systems, to reduce the administrative burdens and cost of compliance" is simply incorrect. The Commission solicits input on how to handle small systems, but offers no tentative conclusions regarding small systems (as it does in many other areas). As the Commission has received significant input from small systems regarding our concerns, it is surprising and worrisome that the Commission has not offered a more specific structure. The Commission claims to "have been careful to take this mandate into account" when it discusses reduced administrative burdens and costs for small cable systems. However, there is absolutely no small system relief in the benchmark rules. (To allow us to calculate our benchmark, but then not have to file it, is no relief. All the work will have been done, and the franchisers will wonder why they cannot "see the numbers"). Again, the SCBA recommendations offer some relief for this problem.

MAJOR ITEMS

Excess Acquisition Costs

8. We do not see how Congress could have intended excess acquisition costs, as the Commission defines them, to be disallowed. It would be inconsistent not to allow a step up of assets to market value, as allowed by the IRS. After all, a cable operator would recreate those assets only at that value. Many sellers, particularly locally owned and smaller operators, have routinely expensed items which properly belong in capital accounts. This particularly holds true for items expensed as maintenance and repairs which, in fact, have materially extended the capacity and/or economic life of the cable system. For example, a system originally built to deliver 12 channels has not been able to purchase new equipment specified for 12 channels only for over a decade.
9. Similarly, intangible assets have a fair market value. It costs money to go through a franchising process, to obtain a particularly needed right of way or a lease and to build a customer base. If these expenditures did not end up on a seller's balance sheet, either because they were expensed

or, more likely, they constituted the seller's "sweat equity", they are nonetheless real.

10. These costs were incurred by cable operators in our reasonable expectation of profits, and were made in good faith during a period of time in which cable was not regulated. These costs were generally agreed to by buyers and sellers, with consequent tax effects. They are allowed by the IRS. They are allowed under GAAP, which accounting rules form the basis underlying the proposed regulatory structure. Summit believes these costs are appropriate. We recommend that they be allowed as capital items as they existed on cable balance sheets after acquisition, and should be amortizable. Further, such amortization should occur from the day they first appear on the balance sheet, at rates prescribed by the Commission, or over the 15 year period included in the recently changed tax law.
11. Perhaps the most important point regarding "excess acquisition costs" is the confiscation of reasonably expected returns from investors. As a small business owner I find it incredible that investments made under the law of the land, and made with expectation of a reasonable return relative to the risk which existed at the time of the investment, could now be lopped off by the Commission. The effect of such action on the ability of small operators to raise money in the future is terrifying.

Partner/Proprietor Taxes

12. The Commission proposes at Section 30, note 32, not to allow recovery of taxes payable on income from cable operations by individual owners, partners or owners of S corporations. The Commission proposes that regular corporations be allowed to recover their taxes. Two-fifths of all American businesses now pay taxes directly on individual tax returns. Most have just seen their taxes raised significantly by the new deficit reduction act. Many small cable operators pay their income taxes on one of these bases. (Summit is an S corporation). To disallow our taxes is, first, simply inequitable. Second, it would put small operators at a serious disadvantage vis-a-vis large operators, who already benefit from lower prices and better economics through their purchasing power and through their high density, high income urban and suburban cable systems. Shareholders of large public companies almost never pay tax on the total company profit, as this is seldom distributed. Sole proprietors, partnerships and S corporations must pay tax on all earnings, including those reinvested in the business, at tax rates often in excess of corporate tax rates under the 1993 Tax Act (particularly for C corporations with small amounts of taxable income). The procedure suggested would have as a consequence further consolidation of the cable TV industry, with consequent elimination of competition (see paragraphs 4

and 5 under "Motivation", above). It is yet another example of the extra burdens proposed for small cable operators. Summit recommends the taxes paid or payable by individual owners, partners or S corporation owners be an allowable expense, under the same terms and conditions applied to taxes of C corporations.

13. A related issue is proprietor wages. Many small cable operators who report their income on a Schedule C (Form 1040) do not pay themselves a wage, but share in the profits of their business. The Commission should allow for the recovery of an amount equivalent to reasonable wages which would have been paid to owners for services actually rendered.

Start-up Losses

14. The Commission offers no discussion of treatment of start-up losses. Summit recommends that losses, including an allowable rate of return, incurred since construction or acquisition of a cable system be part of the rate base. These losses should be amortized over a period of 15 years from the date the first rate hearing ensues. As discussed under "Excess Acquisition Costs", to do otherwise, would simply remove from investors their investment, and any opportunity to generate a rate of return on that investment, with consequent negative effects on the small operators' ability to raise future financing. When any business starts up, there is a period of losses before it "turns the corner". This is particularly true in cable TV operations, where significant capital investment must be made before any revenues are earned. Operating losses are incurred for a period of time after revenues start to flow, and a rate of return (whether interest to the bank or future returns to investors) must be paid. The cost of service rules proposed simply ignore this investment. Summit operates a number of cable systems we constructed in the early to mid-80's which are just now becoming profitable. As it is for many other cable operators, this is a significant investment item to us, one which we have an obligation to recover.

SPECIFIC COMMENTS

15. Sections 7 & 10, Rate Levels Cost-Based Requirement Should Produce in Relation to Benchmark Rates. The embedded assumption here is that benchmark (BM) rates produce full recovery of costs, including a reasonable profit. There is nothing on the record to suggest that they do. In fact, half of the systems defined as competitive and used to develop the BM's are themselves operating in excess of the benchmark, by definition. This is contrary to the express language of the Act. Thus, the cost of service regulations should not foreclose cable operators from substantiating rates above BM through cost of service studies.

16. Section 11, Tier Neutrality. The Commission discusses incentives for cable operators to move programming from basic to higher tiers, reaffirms its conclusion that these would be bad incentives, and tentatively concludes standards should be tier neutral. The BM's presently provide a different incentive (see Motivation, above). They motivate cable operators, particularly small operators, to place services on basic (in order to avoid a dual level of regulation) and, further, not to add any expensive services. Rules which allow operators to recover costs on a tier basis should provide motivation for adding expensive services to tiers, passing through prices of these services to customers, and allowing the market to determine whether or not these expensive program services should survive. The Commission apparently assumes almost 100% of basic customers will take programming tiers. This is an incorrect assumption. Thus, Summit believes that rates should not be tier neutral.
17. Section 18, Special Circumstances. The Commission presumes that its BM's will deliver recovery of costs plus a reasonable profit, and that existing operator rates are "fully compensatory". Summit's rates are not fully compensatory in a number of our systems which exceed the BM's. In fact, 1993 will be our first year showing net profits for all cable operations. We believe the assumption that BM's deliver appropriate returns, and that present rates are fully compensatory, is unproven and potentially very damaging to the industry. We do not support your proposal regarding special circumstances. Section 18 seems instead to be discussing a waiver process for use with the benchmarks, which is a procedure Summit would support.
18. Sections 21 & 28, "Useful" Life. These discussions suggest depreciation rates should be designed by the Commission to match the useful lives of cable TV assets. We note that these might be different lives from those previously used on the cable company's books. For instance, books might be kept on a tax basis, as is Summit's practice.
19. Section 27, Depreciation Based on Book Value. Please see our comments at paragraphs 8 through 11, above.
20. Section 28, Depreciation Method. Summit would favor an accelerated depreciation schedule as a way of partially addressing technological obsolescence and to encourage capital expenditures in pursuit of a new, expanded telecommunications infrastructure (Section 9).
21. Section 29. We agree that the Commission should only monitor operator practices, rather than issuing a "one size fits all" prescription for depreciation for all cable TV assets nation-wide. Depreciation allowances should be

restated to reflect the useful lives and depreciation methods ultimately selected by the Commission. An operator's use of the depreciation method used prior to 9/30/92 should be allowed without question (a safe harbor). If this recommendation is not accepted for all cable systems, it should be accepted for cable systems under 31,000 customers, the Small Business Administration's (SBA) definition of a small cable TV business.

22. Section 30, Taxes. Please see comments at paragraph 12, above. Individual owners, partners, or S corporation owners should be allowed to recover their taxes!
23. Section 33. Should the Commission adopt one valuation methodology (for assets) for determining initial regulated rates, and another for assessing proposed increases in rates? Summit recommends no, unless it is a regulatory goal to have us hire three more CPA's.
24. Section 35, Original Cost Methodology. Please see comments at paragraph 14, above. The tentative conclusion to adopt an original cost methodology takes money from investors, does not reflect the actual cost of assets, and is particularly unfair to small operations where these costs were not carefully tracked.
25. Section 37, "Excess Acquisition Costs". See our comments at paragraphs 8 through 11, and 14, above.
26. Section 38, Value of Purchased Assets. The Commission requests comment on the degree to which a cable operator may value purchased assets at their market price, as opposed to some anomalous price a seller might have on his books. Our comments at paragraphs 8 through 11 note that these market values are real, would have to be paid to recreate the asset in that form, and are allowable under GAAP and by the IRS. We believe the fair value of all acquired assets belongs in the rate base, and should be depreciated and amortized over their useful lives. The Commission seems to be searching for an accounting mechanism to support an assertion that cable TV operator losses are not real losses. This assertion seems to arise from significant prices paid for cable TV companies in the late 80's, when those businesses were losing money. This seeming incongruity between businesses losing money and buyers paying high prices for them is easily understood when one looks at the technological future of communications. That is, buyers were not acquiring present business profits. Rather, they were seeking future opportunities, starting from a "going concern" base. To deny an operator present profits while he seeks future opportunities will simply drive consolidation of the industry.

27. Section 39, Footnote 44. Accumulated losses, together with a reasonable profit, should be treated as invested capital, i.e., included in the rate base. Please see our comments at Paragraph 14, above.
28. Section 42. Plant under construction should be included in the rate base. If it is not an investment, what is it? Certainly not an expense. We recommend that the rate base include all plant under construction which has not resided in that balance sheet category for longer than 36 months.
29. Section 43. The terms "excess capacity" and "cost overruns" are conceptually easy to understand, but in practice very difficult to define. For instance, am I a "fool" building excess capacity, or a "seer" about to deliver a new benefit to my rate regulated customers? Are cost overruns determined by establishing a standard cost for the construction of each mile of cable, each apartment unit, each channel at the head end, on an industry wide basis? We believe GAAP and the IRS provide guidance, and that their rules should be sufficient.
30. Sections 44 & 45, Working Capital. The concept of working capital should be eliminated. It adds unnecessary complexity to an already complex scheme. Current assets, like all other assets, need to be financed. Whether they are financed through debt, equity, accounts payable, or another stratagem should not be the subject of regulation. A working capital requirement could produce perverse motivations. For instance, if a return were allowed on net working capital, cable operators might be motivated to ease collection of receivables. Thus, Summit recommends that the concept of working capital be dropped, and that a return be allowed on assets. Summit maintains an unclassified balance sheet, so working capital is not readily apparent. Taking those categories which would normally be termed current assets and current liabilities, Summit's working capital would be negative. We believe much of the cable industry operates with zero working capital. To be equitable and remove complications like negative working capital and current portions of long term debt, the concept of working capital should not be entertained.
31. Section 46, Rate of Return. We believe higher rates of return should be allowed for smaller cable TV operators. For instance, later discussion of using the S & P 400 as a surrogate to develop rate of return percentages suggests that any cable company smaller than the smallest S & P company should be allowed a higher return. Section 52 suggests a bond yield of 7.5% to be an appropriate piece of allowable rate of return. Most small cable operators borrow from banks and private lenders at rates well in excess of this level. Cable operators seeking to borrow smaller amounts (e.g., less than \$1 million), often have difficulty

finding any lender. Thus, a higher rate of return should be allowed for any cable operator smaller than the smallest S & P 400 company. Summit does not have the expertise or resources to develop surrogates for such a number in this filing.

32. Section 46, Footnote 48, discusses the organizational level at which financial structure should be imputed. It should not be imputed at any organizational level lower than that on which the entire financing package was submitted and the lender's funds were committed.
33. Section 53. Unless the Commission can tell Summit, and other small operators, where they are going to borrow next and how much they are going to pay, we see no way for the Commission to assess cost of debt, particularly for small operators. Return on assets is a more appropriate criteria, we believe.
34. Section 55, Test Year Methodology. Summit does not understand how a future test year can be used to determine performance, and recommends use of the historical test year adjusted pro forma for known and measurable changes.
35. Section 56, Investment Cycle Approach. This solicitation for comment seems to suggest that cable assets placed in service one year will yield increasing revenue over their lives, and that a rate should thus be set based on some kind of average. Summit's recommendations made previously at paragraph 14 regarding recovery of start up losses is a better way to handle this problem. Who know what profits will be obtained from services not yet introduced?
36. Section 57, states that the Report and Order requires "cable operators to maintain accounts in a manner that will enable identification of appropriate costs and application of cost assignment and cost allocation procedures...." This Section places a requirement on cable operators to maintain records which they may not presently maintain. For instance, Summit does not presently maintain the statistical information required to complete the equipment basket information on the BM forms. Therefore, it is unlikely that we presently maintain sufficient information to meet this proposed standard. Most cable companies are in the same dilemma as Summit, particularly smaller companies. Accordingly, we recommend that cable companies not be required to maintain information they do not presently maintain. If this is rejected, then we recommend that cable systems below 31,000 customers per accounting unit not be required to maintain this information, in order to minimize cost and administrative burdens on smaller systems. Similarly, we recommend against establishing a more comprehensive system of accounting, as suggested in Section 58, particularly with regard to smaller cable systems.

37. Section 60 identifies a continuum between attempting to uniquely identify all costs of a franchise, and MSO-cost averaging. This concern goes to the minimum size accounting unit required. Summit recommends that the Commission not require a cable operator to maintain records at a level smaller than 31,000 customers, or a single physical cable system, whichever is larger, except that records must be kept at least at the organizational level at which they were maintained on September 30, 1992. As noted above, the cable TV customer will pay the added cost required to break down information into smaller units. Most operating expenses are either customer or system specific - i.e., very few of them are franchise specific. Requiring cable operators to present costs on a franchise level will lead to negotiations regarding cost allocations among franchise areas, with consequent cost to the consumer and needless complication.

38. Section 64 seeks comment on the level at which major categories of cost can be identified, and what is the best basis for allocation. Summit recommends the following:

a. Labor. Many expenses follow labor. These include:

- Direct labor overhead.
- Vehicle expense.
- Small tools, supplies, and safety equipment.
- Liability insurance.
- Telephone, office rent, and repair.

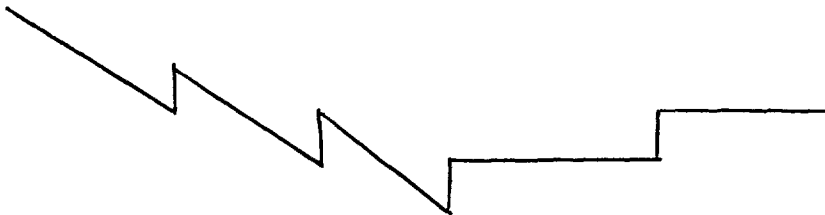
b. Revenue. Expenses which relate most closely to revenue include:

- Revenue-related taxes (in addition to franchise fees or taxes).
- Customer service expenses, including labor and related overhead, phone expense, billing expense, office rent, etc.
- Tax, compliance, and accounting and related expenses.
- General management and administrative expenses.
- Pole rents, system power, rents and rights of way, etc.
- Business (as opposed to customer service) office expense.
- Sales expense.

c. Assets. Some expenses tie most closely to assets, including:

- Property tax.
- Property insurance.
- Maintenance expense.
- Interest.

39. Using customers (in lieu of revenues) has a number of short comings when one attempts to allocate costs among various lines of regulated, as well as unregulated businesses. Basic cable, for instance, is a flat fee per customer per month. Pay Per View, on the other hand, deals in transactions, not the number of customers buying PPV at some time. Are three converter rentals in one home three customers, one customer or no customers? Using revenues instead of customers resolves these issues. If basic and cable programming tiers are revenue neutral, use of a revenue allocation treats them the same.
40. Section 64 asks how the number of channels in a tier service could be factored into the allocation. Again, Summit recommends revenue allocations, not channel-based allocations. The Commission states "the relationship between cost and channels is not linear..." Summit believes the cost of building each channel in a group of channels declines, but only to the point where one shifts to the next technological level (e.g., more expensive amplifiers, closer amplifier spacing, more fiber trunk to reduce cascades, etc.). At each new technological level, however, the first channels cost more than the last channels at the previous level. Thus, the per channel cost is not flat (what we believe the Commission means by "linear"). However, it does not continually decline, as suggested by the Commission's analysis at Section 64. Rather, it is a stair-step pattern which initially decreases in steps, then starts to climb again in levels from its lowest step as channel capacity continues to rise. This pattern is sketched below. Footnote 64 suggests a 100 channel system does not cost ten times more than a 10 channel system. Our analysis would suggest that a 100 channel system probably costs more than twice what a 50 channel system costs. Further, the real issue here is density - i.e., the per channel cost per home passed. If one assumes a way out of this analysis by assuming that signal compression would expand channel capacity, then one must allow for write off against expense of existing equipment which will be obsolesced, as well as insure that one's view of the future will actually come to pass.



41. Section 65 requests comment on whether "franchise-specific costing (is) consistent with our goal of minimizing overall rate disruptions...." Franchise-specific costing simply

raises the expense to consumers. The Commission should adopt a minimum required accounting unit at the greater of a single physical system, or 31,000 customers, as we recommend in paragraph 36 above.

42. Section 65 asks whether operators or local franchise authorities should be able to select the level of cost averaging. Summit's recommended minimum accounting unit resolves this issue. We have difficulty understanding how a franchise authority can specify that accounting records at a certain level (i.e., individual franchise) be presented in a cost of service study, if those records have not been kept. One would simply end up in negotiations over cost allocations. Further, the regulatory cost per customer would increase significantly. Please see our recommendation at paragraph 6 that a per-customer cap be placed on regulatory expense, split evenly between the cable system (and recoverable by it) and the franchising authority.
43. Section 68 invites comment "on whether we should require cable system operators to record affiliate transactions at prevailing company prices offered in the market place to third parties." Summit notes that to require programming owners to price services to their cable systems at cost gives them a price advantage over third party users. Summit's experience is that customers in one town know what the products and services are in the next town, and are aggressive in demanding parity. If one system is owned by a program owner/MSO, and due to affiliate pricing rules sells its cable service for less than the next town, where the cable system is owned by a small independent operator, this public clamor will grow. The likely result is that the large MSO will be invited to extend its service into the smaller town, to compete with (i.e., overrun) the small cable operator who is at a cost disadvantage. Programming services are and should be allowed to make a reasonable profit; yet, it is important that all cable TV systems pay the same (or approximately the same) price for cable programming services.
44. Section 71 solicits comment "on whether it is reasonable to assume that past regulated rates were reasonable as cost based, or reasonable on some other basis...." As we note in paragraph 26 above, this is not a reasonable assumption and should not be made.
45. Section 72 suggests a simplified cost proceeding, keyed to the BM's. Summit supports this approach, as a way to control cost and simplify administration, particularly for small operators.
46. Section 73 is in a similar vein, and solicits input on what factors could account for substantial rate differences among cable TV systems. Summit can suggest a few:

- a. Microwave expense, either common carrier or an operator-owned facility, to deliver broadcast signals to a head end.
- b. Property tax, in certain high tax states and counties.
- c. Customer office in a small system. Cost of an office in any system under 5,000 customers is a significant item. (We estimate \$0.50 or more per customer per month at 5,000 customers, \$2.50 per customer at 1,000 customers, and \$5.00 per customer at 500 customers).
- d. Trunk from off-air antenna site to cable system distribution area, if in excess of "X" miles. We suggest X should be two miles of aerial construction.
- e. Programming costs. Small operators generally pay significantly more for some programming services than large operators.
- f. Head end site costs in excess of \$0.10 per customer per month.
- g. Pole rents in excess of a national average figure. Snohomish PUD in Washington state has just increased its rates to \$25.73. (\$29.03 with leasehold excise tax).
- h. State B & O taxes on revenues in the four states which levy such taxes. Summit pays 2.13% of its gross revenues to the State of Washington.
- i. Performance bonds. This can be a significant expense for small operators. Indeed, even obtaining a bond is often difficult. Summit recommends that bond cost in excess of 1.5% of the bond face value be allowed for accounting units under 31,000 customers.
- j. Health insurance. Different companies provide different levels of benefits. Different employee groups affect the costs of benefits. A number of state mandated plans are coming into effect (Washington has one), which will increase costs. (Even though Summit sponsors health insurance benefits for its employees and their dependents, Summit believes its medical insurance costs will double under the Washington State plan adopted last legislative session). Small operators pay more for medical insurance due to the small size of their employee groups. Costs in excess of some dollar amount per employee should be an allowable factor. Summit suggests this dollar amount could be \$200/month.

47. Section 75 solicits input on cost of service studies for upgrades only. Summit supports this approach, believing it will simplify procedures, particularly for small companies.
48. Section 77 asks whether small systems should be exempted from rate regulations in order to reduce administrative burdens. Summit believes this is consistent with congressional intent, and would promote cable service in rural areas. In addition to applying to cable systems under 1,000 customers, this rule should apply to cable system extensions of less than 1,000 customers. Any system extension, other than to a new multi-unit complex or subdivision, is to serve areas less dense than the original cable system serves. Lower density means higher cost per customer. This is particularly true in small systems, where system extensions go "cross country" to reach a few homes here and there. This type of extension is difficult to justify at present. If the cable operator were faced with a mire of rate regulation before he could make the extension, such regulation might cause him to simply not extend his service.
49. Section 78 asks whether provisions streamlined for small systems should apply to small systems owned by MSO's. Summit believes it should. The economics of a small stand-alone system are the same, regardless of who owns it. In order to maximize the quantity and quality of services in these small communities, and to facilitate extension of this service to surrounding areas, all such systems should be exempted regardless of ownership. The issue is cost of regulation per customer served.
50. Section 79 requests input on averaging equipment costs. This goes to our recommendation in paragraph 37 regarding minimum accounting unit.
51. Section 82, footnote 92, lists "pass through" costs under the BM's, one of which is "the costs of other franchise requirements." Summit believes that new requirements imposed in a new franchise meet this test, but it is not clear that they do. If they do not, they should be subject to an abbreviated cost proceeding as discussed for system upgrades.
52. Section 85 seeks comment on "whether there is a valid economic basis for assuming that cable service has been, and will be, experiencing efficiency gains." We believe not. This notion of cost savings arose from the experience of telephone companies. For many years labor intensive, in the 80's (with the advent of microprocessors) telephone companies commenced automating many manual functions. Recognizing this trend, they sought price caps from their various regulating agencies as a way to maintain revenues in the face of declining costs. Cable companies used

microprocessors to build an industry, one that expanded several fold in the 80's, producing many new jobs and delivering new and demanded services to customers. In sum, the dynamic which existed in the phone companies 10 to 15 years ago simply does not exist in the cable industry. Rather, the demand for a high level of customer service suggests to Summit that labor savings will not be evident in cable TV in the 90's. If mandated by authorities cable operators, having no choice, will deliver the labor savings, but at a cost of reduced system quality and customer service. Alternatively, the Commission might allow cable companies to operate at a per unit cost no greater than that of the local telephone company.

53. Section 88 solicits comments on alternatives for collecting information. Summit believes small systems should not be exempted from collection of information all together. Summit believes small systems and small system operators are different from large MSO's, and require different treatment. It follows that the Commission must collect small system information in order to pursue such a course. Summit believes the same to be true for surveys, as treated at Section 89.
54. Appendix A, Section 76.1102, (e), "Other Cable Activities," includes "studio and equipment engineering and rental services." It is important that the Commission note that studio facilities and expenses maintained to meet franchise requirements belong in (a), Basic Service Tier Activities

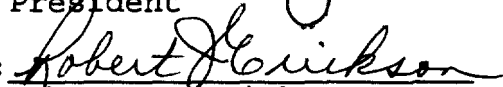
Respectfully Submitted,

Summit Communications, Inc.

By:


James A. Hirshfield
President

By:


Robert J. Erickson, CPA
Senior Vice President

3633 136th Pl. SE, Suite 107
Bellevue, WA 98006
(206) 747-4600